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November 20, 2006

TO: Each Supervisor

FROM: Bruce A. Chernof, M. D.
Director and Chief Medical Officer

SUBJECT: **METROCARE FISCAL IMPACT UPDATE**

This is in response to your Board's order of October 17, instructing me to report back with updated financial information regarding MetroCare. I have also included responses to questions raised with respect to the discussion at the recent Beilenson hearings.

MetroCare

In my report to you of October 17, 2006, I provided you with "a very preliminary estimate of what the expenses, revenues and net costs" might be for MetroCare, as compared to those used for K/DMC in our September 20, 2006 Fiscal Outlook Update to the Board. In bringing you this latest update, I continue to caution that our latest estimates are still very much a work-in-process, given that several programmatic elements of MetroCare are still under development, and that the extent and cost of contract labor and temporary outsourcing of patient care services which may be required are unknown at this time.

Attachment A provides an update of the schedule provided in our letter of October 17, and now includes FY 06-07, as well as FY 07-08 and FY 08-09. Attachment A is based on the updated timeline provided as Attachment B. To the extent the events and related scheduling as reflected in Attachment B change, our fiscal impact estimates will change accordingly.

In our last report, we indicated that:

> "The portion of FY 07-08 which will still be in transition (through at least November 5, 2007) is not reflected in the attached, since the timeline for transition was developed concurrently with these financial estimates. Over the next 30 days, we plan to make this adjustment, and others as become apparent, and develop financial estimates for the current fiscal year based on the transition plan presented in this letter. The determination of the current FY estimates

> may have a 'spillover' impact on the FY 07-08 and FY 08-09 revenue estimates due to the way Medi-Cal Redesign works."

We have attempted to address these previous limitations in the updated estimates presented in Attachment A.

We further indicated that

> "...the net cost of the new configuration, including the assumed permanent reassignment of over half of K/DMC's current employees to other Health Services or County budget units, is roughly estimated to cost $31 million to $33.7 million more than the previous estimates for FYs 07-08 and 08-09, respectively."

As you can see from Attachment A, the estimated net costs are now $24.5 million, $38.4 million and $18.1 million respectively, for FYs 06-07, 07-08 and 08-09. The biggest change in the costs from our last report pertains to the estimates for K/DMC employees expected to be transferred to other Health Services or County budget units. The estimates now anticipate that these excess employees will be completely mitigated by the end of FY 07-08.

Questions and Answers

Following are the questions raised with respect to the discussion at the recent Beilenson Hearings.

Question

"We assume the County doesn't need $200 million from CMS to have the first 75 beds by year end and then 42 beds at K/DMC. Can you get estimates or a projection for the revenue and expenses on a smaller simpler K/DMC with 42 beds and how as well as how much of the balance of the federal funding will be used?

Answer

The MetroCare plan, as summarized in Attachment B, contemplates maintaining the current K/DMC 174 bed (including psych) average daily census workload level during the transition and post-transition periods, plus the permanent addition of 22,900 outpatient visits during FY 07-08 at the new MLK-Harbor. The 174 bed workload level is intended to be accommodated temporarily, and in some cases permanently, by the new MLK-Harbor, Harbor/UCLA, LAC+USC, Rancho, and Olive View/UCLA, as

use of beds in private hospitals in the event the beds in other County hospitals cannot be opened fast enough or if there is insufficient staff support at K/DMC to support the patient load at a given point in time.

The bulk of the $200 million at risk is under Medi-Cal Redesign. These revenues are received by participating public hospitals based on Medi-Cal revenues received in FY 04-05 (baseline), plus any residual amounts available under Medi-Cal Redesign (stabilization funds), which are distributed 60% to the public hospitals and 40% to the private participating hospitals. The 60% for the public hospitals is distributed among them 70% pro rata based on respective hospital baseline amounts and 30% among "donor" public hospitals based on the relative size of each hospital's donation of CPE's to "recipient" public hospitals with insufficient certified public expenditures of their own to draw down their baseline and stabilization revenues.

Under SB 1100, the State implementing legislation for the Medi-Cal Redesign 1115 waiver, reimbursement for inpatient Medi-Cal and inpatient and outpatient uninsured services for a participating public hospital changes when a hospital's costs for these services changes from one fiscal year to the next. The change in these costs adjusts the baseline (and corresponding participation in the stabilization funds) in the subsequent fiscal year, unless the aggregate percentage change in costs for the participating public hospitals differs from the aggregate Medi-Cal Redesign revenues in the participating private hospitals by more than 3%, or the balance in the Safety Net Care Fund falls below $153 million, in which case all participating hospitals revert to their original baselines.

For the non-Medi-Cal Redesign revenues impacted by a loss of CMS certification, such as Medicare, these generally follow the patient.

Question

We also assume that as beds are closed at K/DMC—beds will be opened at Rancho and Olive View to support the ER volume at K/DMC—if the reimbursement is based on patient volume—wouldn't Rancho and Olive View have simply generated those funds?

Answer

Not necessarily—see answer to previous question.

Question

If the funding is not based on patient days—what's the benefit to the residents in South LA?

Answer

The benefit to the residents in South LA is a chance to retain a hospital on the K/DMC site, which would otherwise be closed in the absence of this plan.

Please let me know if you have any questions or desire further information.

BAC:gww (METROCARE FISCAL IMPACT UPDATE)

Attachments

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors

reflected in Attachment B. Further, if necessary, patients will be referred to private contract hospitals to maintain the 174 average daily census workload level as the need may arise. The Department is currently in process of procuring these contracts.

The nearly $200 million revenues in jeopardy is included in Attachment A for FY 06-07 and is adjusted for the expected impact of Medi-Cal Redesign in the subsequent fiscal years. Even assuming these funds, it is anticipated that MetroCare will be somewhat more expensive to run than K/DMC at the specified workload levels, at least through FY 08-09, per Attachment A.

We have no plans to run a 42 bed K/DMC (or new MLK-Harbor) at any point without the full complement of the remaining 132 average daily census workload level as displayed in Attachment B.

Question

We assume that without an emergency room and only med surg beds – Rancho will be limited in what services it can replace for the community. Similarly – it's hard to believe patients would actually be transferred to Olive View given the distance. So what is the real benefit of putting 89 beds at Rancho and 42 at Olive View vs more beds at Harbor and through local contracting?

Answer

The maximum beds at Rancho are 63 and at Olive View, 20. Only 20 of the Rancho beds are to remain permanently and none of the Olive View beds. The purpose of the temporary beds at Rancho and Olive View are to help maintain the DHS system's solvency, as well as provide a basis for re-expansion of MLK-Harbor's census.

Question

How does the county draw down this funding? Is it tied to patient or cost centers? Our hope is that the funding will follow the patients—if that is true—how much can the county possibly think will be generated by Olive View for K/DMC patients? If it is tied to patient volume/patient days—how much of the $200 million (prorated monthly) will actually be generated under this plan?

Answer

The objective of the plan is to preserve as much of the $200 million annually for use within the County DHS as possible. This is why the plan first contemplates the preservation of K/DMC's average daily census of 174 by opening beds in other DHS facilities and transferring K/DMC patients to fill those beds. Back-up plans include the

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
UPDATED COST-OUT ESTIMATE OF METROCARE PLAN
November 16, 2006
($ in Millions)

	Fiscal Year 2006-07			Fiscal Year 2007-08			Fiscal Year 2008-09		
	K/DMC per Fiscal Outlook*	MetroCare Option	Variance	K/DMC per Fiscal Outlook*	MetroCare Option	Variance	K/DMC per Fiscal Outlook*	MetroCare Option	Variance
Expenses									
K/DMC / MLK-HARBOR	444.3 (1)	403.2 (2)	$ 41.1	$ 453.7 (1)	$ 385.2 (2)	$ 68.5	$ 468.4 (1)	$ 407.5 (2)	$ 60.9
H/UCLA	-	14.8 (3)	(14.8)	-	26.3 (3)	(26.3)	-	27.4 (3)	(27.4)
LAC+USC	-	4.3 (4)	(4.3)	-	8.2 (4)	(8.2)	-	8.4 (4)	(8.4)
RLA	-	24.5 (5)	(24.5)	-	28.7 (5)	(28.7)	-	17.9 (5)	(17.9)
OV/UCLA	-	5.4 (6)	(5.4)	-	2.0 (6)	(2.0)	-	- (6)	-
DHS-Reassigned Employees	-	21.4 (7)	(21.4)	-	44.8 (7)	(44.8)	-	15.7 (7)	(15.7)
Totals	$ 444.3	$ 473.6	$ (29.3)	$ 453.7	$ 495.2	$ (41.5)	$ 468.4	$ 476.9	$ (8.5)
Revenues									
K/DMC / MLK-HARBOR									
Medi-Cal Redesign	173.2 (8)	171.0 (9) (21)	$ (2.2)	$ 173.4 (8)	$ 162.4 (9) (21)	$ (11.1)	$ 176.7 (8)	$ 163.7 (9) (21)	$ (13.0)
Medicare	13.4 (8)	12.1 (10)	(1.3)	13.5 (8)	11.8 (10)	(1.7)	13.6 (8)	12.2 (10)	(1.4)
Other	88.8 (8)	81.8 (10)	(7.0)	90.3 (8)	76.2 (10)	(14.1)	91.2 (8)	78.0 (10)	(13.2)
H/UCLA	-	2.2 (11)	2.2	-	2.4 (11)	2.4	-	2.3 (11)	2.3
LAC+USC	-	5.8 (12)	5.8	-	7.7 (12)	7.7	-	8.3 (12)	8.3
RLA	-	2.3 (11)	2.3	-	2.7 (11)	2.7	-	1.5 (11)	1.5
OV/UCLA	-	1.2 (11)	1.2	-	0.7 (11)	0.7	-	0.0 (11)	0.0
Revenue Offset for Reassigned Employees	-	3.8 (13)	3.8	-	16.3 (13)	16.3	-	5.7 (13)	5.7
Totals	$ 275.4	$ 280.2	$ 4.8	$ 277.2	$ 280.3	$ 3.0	$ 281.5	$ 271.8	$ (9.7)
Net Cost	$ 168.9	$ 193.4	$ (24.5)	$ 176.5	$ 214.9	$ (38.4)	$ 186.9	$ 205.0	$ (18.1)
Transition Costs									
Incentive Plan (14)		?							
Information Technology to Support MetroCare System (15)		?							
Interns/Residents at K/DMC (16)		?							
Transportation (17)		?							
Requests For Information (RFI) for various Contracts (18)		?							
Close Psych ER (19)		?							
Harbor Capital Projects and ramp-up cost for OV and RLA (20)		?							

* Per September 20, 2006 DHS Fiscal Outlook Board Letter / forecast, adjusted for the elimination of 16% Cost Reduction target which is not anticipated to materialize because of the focus on patient care issues.

The attached notes are an integral part of this schedule.

ATTACHMENT A

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
UPDATED COST-OUT ESTIMATE OF METROCARE PLAN
November 16, 2006
FOOTNOTES

(1) Expenses as included in the September 20, 2006 DHS Fiscal Outlook Board Letter/forecast for FYs 06-07 through 08-09. Amounts were updated from the October 11, 2006 schedule to include FY 06-07, as well as refinements in the allocation of various central adjustments.

(2) Analysis reflects DHS' clarification of the phasing of ADC transitions from the existing to the new service configurations. Fully operational MLK-Harbor includes 103 ADC (originally targeted 100) is allocated as follows: Med/Surg ADC of 79 ADC, ICU/CCU of 21 ADC and OB of 3 ADC, and is achieved by November 5, 2007. Costs are included for the MLK-Harbor MACC, which is assumed to commence on July 1, 2007. In addition, costs vary from October 11, 2006 schedule due to an updated FY 04-05 Cost Model used for the estimates.

FY 06-07 Estimated Costs through February 28, 2007 are per existing K/DMC cost structures via their Cost Model, since that is the last date the existing K/DMC will be in operation. Beginning March 1, 2007 the new MLK-Harbor comes online. From that date forward, and continuing through FYs 07-08 and 08-09, estimated costs are determined by applying H/UCLA's variable inpatient and outpatient cost per target service unit and then adding K/DMC's hard fixed costs. Cost for FY 07-08 and 08-09 includes applicable COLA's.

(3) Reflects variable costs of transferred ADC to H/UCLA, per H/UCLA's FY 04-05 Cost Model, applied to FYs 06-07 through 08-09 Fiscal Forecasts. This differs from the October 11, 2006 schedule due to: a) FY 06-07 phase-in costs have now been included; and b) costs were initially determined using an older Cost Model. Cost for FY 07-08 and 08-09 includes applicable COLA's.

(4) The responsibility for K/DMC Psychiatric Services Operations will be transferred to LAC+USC. The variable service cost is transferred to LAC+USC and the fixed cost remains at MLK-Harbor. These amounts vary from the October 11, 2006 schedule due to: a) FY 06-07 estimates were not included, and b) the FYs 07-08 and 08-09 costs were refined by LAC+USC staff to reflect staffing and logistical changes deemed necessary to accomodate the transfer of the 21 Adult Psych ADC from K/DMC to LAC+USC. Cost for FY 07-08 and 08-09 includes applicable COLA's.

(5) The October 11, 2006 Preliminary Cost-Out reflected only the completed configuration for H/UCLA and MLK-Harbor, and did not take into account any phasing or any cost impacts to RLA or OV/UCLA. Since that time, DHS has clarified the phasing of ADC from K/DMC to other hospitals. ADC transfers into RLA assume staffing lead-in costs. RLA staff provided all cost estimates, and have included Nursing Registry costs in their estimate, along with other logistical/equipment start-up costs. These same types of costs have yet to be identified for the remaining affected hospitals.

(6) The transfers-in of 20 ADC to OV/UCLA begin on January 1, 2007, with a ramp-up beginning on November 30, 2006, per the MetroCare Plan Timeline, and then the ADC are transferred back to MLK-Harbor on September 10, 2007. Therefore, OV/UCLA only has additional costs pertaining to the 20 ADC for 7 months in FY 06-07, and 2.5 months in FY 07-08. Costs were calculated based on FY 03-04 rates provided by OV/UCLA Finance staff, inflated by budget COLA percentages per Controller's Division.

(7) DHS is assuming that 60% of current K/DMC employees will be reassigned to other locations. Reassigned employee expense is calculated by taking 60% of K/DMC's latest full-year FY 06-07 S&EB forecast ($217.0M less: fixed EB's of $30.6M interns and residents salaries and variable EB's of $14.5M, based on 12/1/06 departure not known as of our last report) less the expected DHS S&EB surplus (excluding K/DMC) of $35.4M. This results in an adjusted full-year basis of reassigned employee expenses of $67.8M.

DHS assumes that all costs related to reassigned employees will be $0 by the end of FY 08-09, due to either mitigation or attrition. This yields a mitigation/attrition factor of 1/28 per month (per the 28th month period from March 1, 2007 through June 30, 2009.) Since MLK-Harbor comes online March 1, 2007, only four months of the above $67.8M x the corresponding mitigation/attrition factor which results in $21.4M in costs apply to FY 06-07. This calculation is used again for the remaining 24 of 28 months mitigation/attrition factor through FY 07-08 and 08-09, resulting in $44.8M and $15.6M in costs for each fiscal year, respectively.

Amounts were updated from the October 11, 2006 Preliminary Cost-Out to reflect the above, and to exclude Interns and Residents from employee reassignment costs. Additionally, all DHS facilities (including JCHS, OMC and HSA) are now assumed to be used for mitigation, not just the Hospitals and CHCs/HCs as previously assumed.

(8) Revenues as included in the September 20, 2006 DHS Fiscal Outlook Board Letter/forecast for FYs 06-07 through 08-09. Amounts were updated from the October 11, 2006 schedule to include FY 06-07, as well as refinements in the allocation of various central adjustments.

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
UPDATED COST-OUT ESTIMATE OF METROCARE PLAN
November 16, 2006
FOOTNOTES

(9) Assumes K/DMC will continue receiving all funding from CMS for the entire transition period and continuing through FY 08-09. Medi-Cal Redesign revenues are based on current Medi-Cal Redesign formulas using total estimated costs for each Fiscal Year, beginning with FY 06-07 and running through FY 08-09. Cost for FY 07-08 and 08-09 includes applicable COLA's.

(10) MLK-Harbor Medicare and Other Revenues were reduced pro rata based on the new MLK-Harbor's cost reduction from K/DMC, and the corresponding ADC transfers to H/UCLA, RLA and OV/UCLA.

(11) Identifies the impact of Medi-Cal Redesign, Medicare, and other revenues on H/UCLA, RLA and OV/UCLA due to ADC transfers from K/DMC. At the time of the October 11, 2006 schedule, the Department had not yet clarified the ADC phasing from K/DMC to H/UCLA, RLA, and OV/UCLA; therefore, all revenues were assumed to go to H/UCLA only.

(12) Since costs were identified as per footnote (4) above, the inpatient Mental Health revenue will be transferred to LAC+USC beginning December 15, 2006. In FYs 06-07 through 08-09 the revenues also include the impact of Medi-Cal Redesign. These amounts vary from the October 11, 2006 schedule due to: a) FY 06-07 was not included in that schedule, and b) revenues were refined due to cost changes as identified in footnote (4) above.

(13) Impact of reassigned employees is reflected in CBRC and Medi-Cal Redesign revenues for FYs 06-07 through 08-09.

(14) The proposed incentive plan provides additional compensation to staff selected to establish the new MLK-Harbor facility. Additional compensation provided under the plan will expire on December 31, 2008. The plan is pending approval of the CAO, Board, and Union. No cost estimate is available at this time.

(15) The Department's CIO is analyzing the required information technology costs associated with the MetroCare plan. The high-level preliminary cost estimate is $15M. However the Department will be revising this amount as we proceed with our analysis.

(16) DHS anticipates paying costs for Interns and Residents through June 30, 2007, even though they are not expected to work for the County beyond November 30, 2006.

(17) Transportation costs for patients and families to relocate to other hospitals is unknown at this time.

(18) The Department is issuing several RFIs regarding various physician, ER and other contracts. Costs are unknown at this time.

(19) Psych ER at K/DMC will close on December 15, 2006. The cost impact to other DHS hospitals is unknown at this time.

(20) H/UCLA has indicated that various capital and other projects may require immediate attention as a result of the MetroCare plan, for which costs are currently unknown. These include, but are not limited to: Ambulatory Care Project, Nurse Call System, Space Enhancements/Expansions for clinics, offices, lab, parking, support service and ICU. Ramp-up cost needed by OV/UCLA and RLA has yet to be identified.

(21) Under SB 1100, the State implementing legislation for the waiver, reimbursement for service changes for participating public hospitals can only be recognized by changed costs associated with those services. To the extent such changes occur, the hospital's baseline reimbursement will be changed in the subsequent fiscal year, unless the aggregate change for participating public hospitals on a percentage basis is more than 3% variance from the aggregate Medi-Cal revenue percentage change for the participating private hospitals, or the value of the SNCP is less than $153M, at which point each hospital reverts to its original baseline. Based on internal projections, we anticipate that for FYs 07-08 and 08-09, the hospital's baseline will revert to its original baseline. However, if the baseline does not revert back to the original, we would expect Medi-Cal Redesign revenue to change approximately $40.8M and $31.8M, respectively, for FYs 07-08 and 08-09.

ORIGINAL VERSION
OCTOBER 31, 2006

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
TIMELINE OF METROCARE PLAN
REFLECTING PHASING OF INPATIENT ADC AND OUTPATIENT VISITS [1]

STEP	DATE			CURRENT K/DMC ADC
		STARTING POINT	CURRENT K/DMC ADC	174
16	12/15/2006	TIME LINE	ADULT PSYCH	(21)
7	11/30/2006	TIME LINE	NICU	(13)
8	11/30/2006	TIME LINE	PICU	-
9	11/30/2006	TIME LINE	PEDIATRICS	(10)
10	11/30/2006	TIME LINE	HIGH RISK OB	(7)
19	12/15/2006	TIME LINE	MED-SURG ADC	(25)
20	1/1/2007	TIME LINE	MED-SURG ADC	(20)
32	3/1/2007	TIME LINE	MED-SURG/ICU ADC	(18)
33	3/1/2007	TIME LINE	MED-SURG/ICU ADC	(57)
	3/1/2007		LOW RISK OB [3]	(3)
42	9/10/2007	TIME LINE	MED-SURG/ICU ADC	
46	11/5/2007	TIME LINE	MED-SURG	
	11/5/2007		INPATIENT ADC	-
	11/5/2007		OUTPATIENT VISITS	167,100

K/DMC ADC TRANSFERS FROM/TO OTHER HOSPITALS				
LAC+USC	H/UCLA	OV/UCLA	RLA	NEW H/MLK
21				
	13			
	-			
	10			
	7			
			25	
		20		
				18 [2]
			38 [2]	19 [2]
				3 [3]
		(20)	(18)	38
			(27)	27
21	30	-	20 [3]	103

CUMULATIVE CHANGE IN DHS ADC							
DATE	K/DMC	LAC+USC	H/UCLA	OV/UCLA	RLA	NEW H/MLK	TOTAL ADC
Starting	174						174
	153	21					174
11/30/2006	140	21	13				174
11/30/2006	140	21	13				174
11/30/2006	130	21	23				174
11/30/2006	123	21	30				174
12/15/2006	98	21	30		25		174
1/1/2007	78	21	30	20	25		174
3/1/2007	60	21	30	20	25	18 [2]	174
3/1/2007	3	21	30	20	63 [2]	37 [2]	174
3/1/2007	-	21	30	20	63	40 [3]	174
9/10/2007	-	21	30	-	47	76	174
11/5/2007	-	21	30	-	20 [3]	103	174
07/01/2007 [4]						190,000 [4]	22,800

(1) The Timeline and Bed Map uses Beds and ADC interchangeably. To ensure the appropriate amount of ADC is transferred, we have converted all Bed counts to ADC.

(2) The timeline does not reflect any concurrent phase-outs of ADC temporarily transferred to other hospitals. These phase-outs are netted against the total ADC transferred that is identified on this schedule.

(3) Included in the OB/GYN ADC currently at K/DMC, are low risk OB of 3 ADC which will not be transferred to Harbor/UCLA. These 3 low risk OB ADC were not reflected in the timeline. County Counsel has determined that an OB Program must be retained at the new H/MLK Community Hospital in order to retain DSH status. In order to accomodate this, the total ADC permanently transferred to RLA will be 20 ADC, not the 23 ADC shown in the timeline.

(4) The timeline does not mention when the new H/MLK MACC opens. We have assumed a July 1, 2007 commencement date.

ATTACHMENT B